

V. REPORT OF THE FUNDING ALTERNATIVES SUBGROUP

Senator Dennis Damon convened the meeting of the Funding Sub-Group on Friday, January 6th. The following represents a summary of the discussion and recommendations that the Funding Subgroup believes that the full Working Group should consider to mitigate the immediate challenge – restoring as many of the deferred projects for fiscal years 2006 and 2007 as is reasonable and prudent. Some long-term funding considerations are also mentioned below.

A. Background and Scope of the Challenge

A combination of factors including unprecedented increases in construction costs caused by world-wide demand and recent hurricanes and federal cash-flow challenges resulting from the recently-passed federal transportation funding bill required the Maine Department of Transportation (MaineDOT), in the fall of 2005, to defer transportation projects worth about \$130 million, representing about 20 percent of the projects in MaineDOT's 2006-07 Biennial Capital Work Plan. If left unresolved, this deferral will impact 143 projects in 112 communities across Maine.

On December 1, 2005, Governor John Baldacci described this deferral as "unacceptable", and convened a working group to assess and mitigate its impact. Since then, MaineDOT has evaluated the readiness or deliverability on deferred projects to determine whether the projects could be delivered if additional resources were found and project development could resume. As with any on-going production operation, the suspension of the operation means that output will be reduced. In this case, MaineDOT estimates that even if additional funds are found, the lack of funding certainty to the spring of 2006 will result in about \$30 million worth of projects being pushed into the next biennium (2008-09), meaning funding for these delayed projects can occur in the next budget cycle. This means the scope of the immediate challenge is about \$100 million.

Of course, the best way to mitigate the impact of the deferrals is to reduce costs in the first place. To address this challenge, the Value Engineering Subgroup is working to identify changes to designs, contracting, and work requirements to reduce costs of MaineDOT's Capital Work Plan. This group first met on January 11th. An ambitious goal of \$10 million has been set. Assuming this goal is met, and assuming the scope of MaineDOT's original Capital Work Plan is satisfactory, this means that the immediate funding shortfall is about **\$90 million**.

B. Recommended Solution(s)

The Funding Subgroup considered a variety of possible solutions. After a wide-ranging discussion, the group reached consensus that policymakers should adopt a balanced approach that first exhausts available cash resource options; and then utilizes alternative financing measures to resolve the immediate transportation funding challenges facing the State.

Further analysis was conducted based on the criteria discussed to suggest an allocation formula:

Cash Resources:		\$20-
30 million		
	Alternative Financing Strategies	
	State General Obligation or Revenue Bonds	\$20-30
million		
	Federal – GARVEE Bonds	\$ 40
<u>million</u>		
	Total Solution	\$ 90
million		

1. Available Cash Resources.

a. Highway Fund.

It is projected that approximately \$15 million in Highway Fund resources should be available for allocation to MaineDOT's capital program in the Highway Fund Supplemental Budget. This amount consists of two components.

- MaineDOT Personal Services Savings. Due to a number of factors including efficiencies realized through on-going reorganization and work planning efforts, there exists about \$10.9 million in Personal Service savings for FY05 available for the capital program. The Transportation Committee has consistently voted to use such savings for the capital program. Given the dire need, this should occur again.
- Revised revenue projections. The Revenue Forecasting Committee recently revised Highway Fund projections upward for the balance of fiscal year 2006 by an estimated \$4 to 5 million. Again, these funds should be allocated to resolve this immediate challenge.

b. General Fund.

State budgets adopted by Governors and Legislatures have historically shifted funds between the State's General Fund and Highway Fund during difficult budget periods. In some cases these contributions were restored or offset with reverse contributions. Given the potential negative impacts these project deferments would have on the Maine economy and given the reported General Fund surplus, the members believed that some level of General Fund participation is appropriate. No specific level of funding was determined, but a strong recommendation was made that the Governor and Legislature consider this important transportation need as decisions are made regarding the disposition of any surpluses in the General Fund as part of the Governor's Supplemental Budget to be considered by the Legislature in the coming weeks. The Governor

has indicated support, and a strong interest in working with the Transportation and Appropriations Committees to develop a workable bipartisan mechanism.

c. Federal Considerations.

Short-term federal cash-flow challenges account for about 40 percent of the immediate financial challenge now facing MaineDOT. Facing this reality, the Funding Subgroup believes that any solution should include a federal component that includes two approaches.

- Maintain a dialogue with our congressional delegation, stressing the urgency of the problem and the need for additional federal help to offset project deferrals that are likely to harm Maine's economy.
- Urge members of Maine's delegation to seek generic earmarks for MaineDOT capital projects under the transportation "corrections" bill to be taken up later this year. The State should make this request in a letter to our congressional delegation. Signatories should be the Governor and the members of the Legislature's Transportation Committee.

2. Alternative Financing Strategies.

The Funding Subgroup members concluded that available cash resources could only address part of the solution, given the size of the funding challenge. General Fund and Highway Fund options will continue to leave a sizeable gap between the number of deferred projects and the amount of available funds.

The Maine Turnpike Authority, represented on the Governor's Working Group by its Executive Director, Paul Violette, utilized its expertise and that of its investment bankers to prepare the attached analysis. This provided the Sub-Group with a menu of financing options that would be particularly applicable and readily available to address the immediate funding challenge.

Although the attached paper explores these options in more depth, the following highlights the principle recommendations resulting from the MTA analysis, and the discussion among Sub-Group members:

a. Transportation Debt Policy.

The MTA analysis of Maine's position with respect to transportation related debt states the following: " when compared to other states, Maine has been extremely conservative in the practice of borrowing to finance long-term transportation improvements." This observation was referring to the short-term borrowing typical for State bonds of ten years on average, toward investments in transportation infrastructure that in some cases can have a useful life measured in decades.

The subgroup members discussed this assessment of state borrowing practice and suggested the Governor and Legislature consider longer-term borrowing for these longer-term assets in order to spread said borrowing over more of the assets useful life, and therefore reduce debt-service payment burden on either the General Fund or Highway Fund, depending on the source of repayment.

It was suggested that this policy question should be further explored as long-term transportation funding issues are addressed, but longer-term borrowing could be considered if this is the borrowing option chosen to address the immediate funding challenge. Further discussion revolved around whether current debt-to-revenue policies unduly restrict needed transportation investment.

b. General obligation bonding.

If the Legislature decides to send a general obligation bond issue to the voters in 2006, the Funding Subgroup strongly recommends that a transportation component be included. The subgroup recognized that this may not be likely.

c. Conduit Financing (also known as Revenue Bonds).

Other states, most notably New York, have issued revenue bonds through third parties. The New York Thruway, for example, issues debt on behalf of the New York State Division of Budget and the New York Department of Transportation. The arrangement uses a dedicated stream of revenue provided by these agencies for debt service repayment.

Using this model, the Maine Turnpike Authority or the Maine Municipal Bond Bank could issue bonds on behalf of MaineDOT. Such an arrangement would require a dedicated stream of revenue such as a portion of the state motor fuel tax, a General Fund appropriation, or other revenue source.

The subgroup discussed how this particular approach to bonding differed from the more conventional G.O. Bonding discussed above. The subgroup discussed this concept as it relates to long-term funding challenges, and how enabling MaineDOT to exercise some limited financing authority to address sudden changes in funding was a policy goal worthy of consideration. With respect to the more immediate funding challenge, the advantage of this approach would be the ability to finance long-term transportation improvements without pledging the full faith and credit of the State of Maine. The source of repayment would be the security for the bond.

d. GARVEE Financing.

The Federal Highway Administration several years ago authorized the use of what have become known as “GARVEE” Bonds, and acronym for Grant Anticipation Revenue Vehicle. This accepted tool allows state government transportation departments, such as MaineDOT, to borrow against future federal transportation revenues to finance long-term capital investments. Because about 40 percent of the current challenge is related to federal funding complications, the subgroup believes that a federally financed solution should be considered as one component of the solution.

Maine issued a GARVEE in 2004 to fund portions of the Waldo-Hancock Bridge replacement project, with bonding not to exceed \$50 million. While not legislatively mandated, the State chose to restrict the final maturity of this GARVEE to 2015, representing an 11-year term of debt.

Maine’s use of GARVEE is modest in size, compared with other states that have utilized this financing tool, ranking next to last among the 23 states and U.S. territories that have pursued such financing. Subgroup members observed that while the issuance of new GARVEE bonds would mean taking on additional debt, the cost of this new debt should be measured against the State’s ability to help close the current transportation funding gap by delivering projects over the near term.

In evaluating the expanded use of GARVEEs, the State should consider 1) minimizing the impact of additional debt on the cash-funding of projects in the current Statewide Transportation Improvement Program (STIP), and 2) better matching the term of the debt with generally long useful lives of the projects that can be funded with GARVEE’s (bridges or major highway reconstruction).

C. Long-term Funding Considerations.

Senator Damon spoke to the need to continue this type of effort as the Transportation Committee evaluates alternative funding strategies to address the development and maintenance of the State’s transportation system in the future. The Committee has directed MaineDOT and the MTA to evaluate and analyze the sustainability of the motor fuel tax as the primary source of funding for the highway and bridge program. MaineDOT contracted with the Margaret Chase Smith Center for Public Policy to research alternative financing options to the motor fuels tax. A report will be delivered to the Committee in February.

The subgroup agreed that this effort should continue to address these longer-term funding concerns.